

MONTGOMERY COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2010 AND 2009

MONTGOMERY COUNTY MEMORIAL HOSPITAL

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2010

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Sarah Smith, Chair	Red Oak, Iowa	2014
Kenneth Rech, Vice-Chair	Red Oak, Iowa	2014
Lorin Petersen, Treasurer	Stanton, Iowa	2014
Jim Robinson	Villisca, Iowa	2010
Roger Ehmke, Secretary	Red Oak, Iowa	2010
Kathy Carlson	Red Oak, Iowa	2012
Kevin Cabbage	Stanton, Iowa	2012
<u>Chief Executive Officer:</u>		
Allen E. Pohren	Red Oak, Iowa	
<u>Chief Financial Officer:</u>		
Rick Leinen	Red Oak, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Montgomery County Memorial Hospital
Red Oak, Iowa

We have audited the accompanying balance sheets of Montgomery County Memorial Hospital as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montgomery County Memorial Hospital as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2010 on our consideration of Montgomery County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees
Montgomery County Memorial Hospital

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4e and 23 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information (shown on pages 24 through 41) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gunnwald, Ben, Kynan & W.P.C.

Atlantic, Iowa
December 20, 2010



Montgomery County Memorial Hospital

2301 Eastern Avenue • P.O. Box 498 • Red Oak, Iowa 51566 • Phone 712-623-7000

MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2010, 2009, and 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with an \$835,787 or 3.6 percent increase in 2010 and a \$805,783 or 3.6 percent increase in 2009.

The Hospital reported an operating loss of \$626,698 in 2010 and an operating loss of \$823,182 in 2009. In 2008, the Hospital reported an operating loss of \$679,589.

Non-operating revenues were \$1,398,090 in 2010, \$1,603,965 in 2009, and \$1,761,089 in 2008. The largest component of nonoperating revenues is county taxes, which have been approximately \$1.3 million each year.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets, the difference between assets and liabilities, are one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors must be considered to assess the overall health of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It explains what activities generated cash, how cash was used, and the change in the cash balance during the reporting period.

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The Hospitals' net assets increased \$835,787 or 3.6 percent in 2010 and \$805,783 or 3.6 percent in 2009, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 8,838,013	\$ 8,041,887	\$ 8,390,113
Capital assets, net	20,655,089	13,595,321	10,071,071
Other noncurrent assets	<u>4,254,770</u>	<u>7,167,674</u>	<u>10,006,342</u>
Total assets	<u>\$ 33,747,872</u>	<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>
Liabilities:			
Long-term debt outstanding	\$ 4,589,123	\$ 1,653,893	\$ 2,151,233
Other current and noncurrent liabilities	<u>4,925,766</u>	<u>3,753,793</u>	<u>3,724,880</u>
Total liabilities	<u>\$ 9,514,889</u>	<u>\$ 5,407,686</u>	<u>\$ 5,876,113</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 15,138,405	\$ 11,262,460	\$ 7,400,409
Restricted expendable net assets	823,559	857,302	856,405
Unrestricted	<u>8,271,019</u>	<u>11,277,434</u>	<u>14,334,599</u>
Total net assets	<u>\$ 24,232,983</u>	<u>\$ 23,397,196</u>	<u>\$ 22,591,413</u>
Total liabilities and net assets	<u>\$ 33,747,872</u>	<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Table 2 shows the components of the operating and nonoperating activities and the resulting effect on changes in net assets.

Table 2: Operating Results and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Net patient service revenues	\$ 24,648,750	\$ 23,610,244	\$ 20,810,592
Other operating revenues	<u>388,907</u>	<u>415,627</u>	<u>385,803</u>
Total operating revenues	<u>25,037,657</u>	<u>24,025,871</u>	<u>21,196,395</u>
Operating Expenses:			
Salaries and wages	12,223,870	12,135,988	10,590,712
Employee benefits	3,464,279	3,136,846	2,892,083
Professional fees	1,929,763	1,676,300	1,159,415
Other operating expenses	6,383,284	6,251,298	5,678,661
Depreciation and amortization	<u>1,663,159</u>	<u>1,648,621</u>	<u>1,555,113</u>
Total operating expenses	<u>25,664,355</u>	<u>24,849,053</u>	<u>21,875,984</u>
Operating income (loss)	(626,698)	(823,182)	(679,589)
Nonoperating Revenues and Expenses:			
Property taxes	1,291,992	1,291,992	1,220,713
Investment income	59,805	230,921	485,433
Noncapital grants and contributions	28,706	47,686	82,360
Other nonoperating revenues and expenses, net	<u>17,587</u>	<u>33,366</u>	<u>(27,417)</u>
Total nonoperating revenues (expenses)	<u>1,398,090</u>	<u>1,603,965</u>	<u>1,761,089</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	771,392	780,783	1,081,500
Capital Grants and Contributions	<u>64,395</u>	<u>25,000</u>	<u>27,657</u>
Increase in Net Assets	835,787	805,783	1,109,157
Net Assets Beginning of Year	<u>23,397,196</u>	<u>22,591,413</u>	<u>21,482,256</u>
Net Assets End of Year	<u>\$ 24,232,983</u>	<u>\$ 23,397,196</u>	<u>\$ 22,591,413</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis – Continued

OPERATING INCOME AND LOSS

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2010, the Hospital had an operating loss of (\$626,698); in 2009, it was (\$823,182); and in 2008, the Hospital had an operating loss of (\$679,589). The operating loss in 2010 represents a decrease of \$196,484 from the loss in 2009, and the operating loss in 2009 represents an increase of \$143,593 from the loss in 2008.

The primary components of these operating income and operating losses are:

Net patient service revenue increased \$1,038,506 or 4.4 percent from 2009 to 2010. Components of this include \$1,099,382 in increased patient charges (3.0%), \$57,414 in increased contractual adjustments (.5%), and no increased provision for bad debts and charity care. Accounts written off were comparatively similar from 2010 to 2009. The aging of accounts receivable shows a trend of few older accounts on the Hospital's books. It should also be noted that part of the increase in patient charges and related contractual adjustments are due to the hospital assuming management of Red Oak Internal Medicine for approximately nine months in 2009. In addition, Surgical Services were provided for the full year.

In 2010, contractual adjustments are 31.8 percent of patient service revenue, compared to 32.6 percent of patient service revenue in 2009, 28.2 percent in 2008, 27.0 percent in 2007, and 25.3 percent in 2006. Contractual adjustments have improved since 2004, 38.0 percent, because of the Hospital's designation as a Critical Access Hospital (CAH) effective October 1, 2004 by the Centers for Medicare and Medicaid Services. As a CAH, the Hospital is reimbursed defined costs for services provided to Medicare and Medicaid patients. Medicare patients represent about 60 percent of the Hospital's patient service revenue in 2010 (58 percent in 2009). Medicaid represents about 8.5 percent of the Hospital's patient service revenues in 2010(8.9 percent in 2009).

Numerous factors affect the contractual adjustments, including changes in volume and patient mix, and the cost of labor, benefits, purchased services and supplies needed to provide patient services. The Hospital is reimbursed by Medicare and Medicaid at tentative rates until final settlement with the fiscal intermediaries. At the date of this report, one year of Medicare and two years of Medicaid cost reports have yet to be finalized.

In addition, the Hospital has payment contracts with commercial insurance carriers and preferred provider organizations that include discounts from established charges and prospectively determined rates as a basis of reimbursement. Many of the non-Medicare contractals are increasing significantly. In particular, the Hospital's Wellmark business is at 17.2% for 2010 as compared to 18.7% for 2009. With new payment systems in place we expect Wellmark's contractual allowances to grow in 2011.

Salaries and wages costs increased \$87,882 or .7 percent from 2009 to 2010. Employee benefits increased \$327,433 or 10 percent in 2010. The Hospital purchased an indemnity employee health insurance plan in calendar 2008 after 12 years of administering a self-insured plan.

MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

Total operating expenses increased \$815,302 or 3.3 percent from 2009 to 2010. Included in this is an increase in depreciation expense of \$16,285 or 1.0 percent. Depreciation will increase with the completion of the hospital's addition in 2011. Investments in new technology and replacement of aging capital assets in the past three years are resulting in increased depreciation and equipment maintenance costs. Part of the hospital's increased salaries and expense has been incurred with the addition of Red Oak Internal Medicine and Surgical service during 2009.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as net patient service revenues of the Hospital.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A.13 to the financial statements.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2010 was prepared on a modified accrual basis. Hospital gross operating revenue and operating expenditures were less than budgeted amounts during 2010 by \$13,894,165 and \$11,535,143, respectively. The budgeted amounts were higher due to the anticipated debt proceeds and construction cost that have not yet been incurred.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2010, the Hospital had \$29,925,529 invested in capital assets, net of accumulated depreciation (\$21,757,160 in 2010), as detailed in Note F to the financial statements. In 2010, the Hospital purchased new property and equipment costing \$943,233 (\$1,545,168 in 2009; \$608,156 in 2008). As of June 30, 2010, the Hospital incurred costs of \$12,383,380 for long-term site development, renovation and expansion of the existing facility. The total estimated cost of the project is \$15,652,000 and the Hospital is anticipating the use of internally generated funds and the issuance of debt to complete the project.

Debt:

At year-end, the Hospital had \$5,382,674 in notes payable outstanding as detailed in Note G (\$2,265,000 at June 30, 2009).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer or Controller at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL

Balance Sheets

June 30,

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 584,377	\$ 1,138,063
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,527,000 in 2010, \$1,907,000 in 2009)	4,605,776	4,022,247
Other receivables	65,040	80,680
Inventory	397,955	387,787
Prepaid expense	419,605	127,948
Estimated third party payor settlements	554,000	--
Succeeding year property tax receivable	1,364,000	1,282,000
Internally designated assets	<u>847,260</u>	<u>1,003,162</u>
Total current assets	8,838,013	8,041,887
Designated and Restricted Assets:		
Internally designated assets	3,661,808	6,575,930
Restricted assets	<u>823,559</u>	<u>857,302</u>
	4,485,367	7,433,232
Less amounts required to meet current liabilities	<u>847,260</u>	<u>1,003,162</u>
	3,638,107	6,430,070
Capital Assets:		
Depreciable capital assets, net	8,168,369	8,924,609
Non-depreciable capital assets	<u>12,486,720</u>	<u>4,670,712</u>
	20,655,089	13,595,321
Other Assets:		
Notes receivable	99,172	92,500
Debt issue costs	148,351	59,546
Equipment deposits	--	260,804
Other	<u>369,140</u>	<u>324,754</u>
	616,663	737,604
Total assets	<u>\$ 33,747,872</u>	<u>\$ 28,804,882</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 727,444	\$ 497,340
Accounts payable	1,508,912	673,622
Accrued salaries and wages	327,649	306,160
Accrued other employee compensation	755,362	727,940
Accrued interest payable	13,251	7,919
Accrued fees	24,100	20,000
Payroll taxes withheld and accrued	175,041	165,416
Other current liabilities	30,007	38,396
Estimated third-party payor settlements	--	35,000
Deferred revenue for succeeding year property tax receivable	<u>1,364,000</u>	<u>1,282,000</u>
Total current liabilities	4,925,766	3,753,793
Long-Term Debt:		
Notes payable, less unamortized refunding costs and current maturities	<u>4,589,123</u>	<u>1,653,893</u>
Total liabilities	9,514,889	5,407,686
Net Assets:		
Invested in capital assets, net of related debt	15,138,405	11,262,460
Restricted - expendable	823,559	857,302
Unrestricted	<u>8,271,019</u>	<u>11,277,434</u>
Total net assets	<u>24,232,983</u>	<u>23,397,196</u>
 Total liabilities and net assets	 <u>\$ 33,747,872</u>	 <u>\$ 28,804,882</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Revenue:		
Net patient service revenue	\$ 24,648,750	\$ 23,610,244
Other revenue	<u>388,907</u>	<u>415,627</u>
Total revenue	25,037,657	24,025,871
Expenses:		
Nursing service	6,475,945	6,375,855
Other professional service	11,341,917	10,767,412
General service	2,400,642	2,322,928
Fiscal and administrative service	3,782,692	3,734,237
Provision for depreciation	1,644,664	1,628,379
Amortization	<u>18,495</u>	<u>20,242</u>
Total expenses	<u>25,664,355</u>	<u>24,849,053</u>
Operating Loss	(626,698)	(823,182)
Non-Operating Revenue (Expenses):		
County taxes	1,291,992	1,291,992
Investment income	59,805	230,921
Noncapital grants and contributions	28,706	47,686
Rental income, net	161,590	115,729
Gain on disposal of assets	--	1,331
Interest expense	<u>(144,003)</u>	<u>(83,694)</u>
Non-operating revenue, net	<u>1,398,090</u>	<u>1,603,965</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	771,392	780,783
Capital Grants and Contributions	<u>64,395</u>	<u>25,000</u>
Increase in Net Assets	835,787	805,783
Net Assets - Beginning of Year	<u>23,397,196</u>	<u>22,591,413</u>
Net Assets - End of Year	<u>\$ 24,232,983</u>	<u>\$ 23,397,196</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 23,491,861	\$ 23,012,739
Cash paid to suppliers	(11,141,370)	(11,085,769)
Cash paid to employees	(12,174,959)	(11,996,303)
Other revenue received	<u>388,907</u>	<u>415,627</u>
Net cash provided by operating activities	564,439	346,294
Cash flows from non-capital financing activities:		
County tax received	1,291,992	1,291,992
Noncapital grants and contributions	<u>28,706</u>	<u>47,686</u>
Net cash provided by non-capital financing activities	1,320,698	1,339,678
Cash flows from capital and related financing activities:		
Construction in progress expenditures	(7,797,705)	(3,510,903)
Purchase of property and equipment	(743,161)	(1,418,204)
Equipment deposits	--	(9,780)
Principal paid on long-term debt	(545,000)	(585,163)
Proceeds on notes payable	3,662,674	--
Debt issue costs paid	(107,300)	--
Interest paid	(146,513)	(110,500)
Capital grants and contributions	64,395	25,000
Proceeds from the sale of assets	<u>--</u>	<u>1,331</u>
Net cash used in capital and related financing activities	(5,612,610)	(5,608,219)
Cash flows from investing activities:		
Investment income received	59,805	230,921
Decrease in designated and restricted assets	1,181,354	5,046,095
Increase in notes receivable, net	(6,672)	(62,500)
Office building rental income	217,175	220,544
Increase in other assets	<u>(44,386)</u>	<u>(28,948)</u>
Net cash provided by investing activities	1,407,276	5,406,112
Net increase (decrease) in cash and cash equivalents	(2,320,197)	1,483,865
Cash and cash equivalents at beginning of year	<u>4,524,179</u>	<u>3,040,314</u>
Cash and cash equivalents at end of year	<u>\$ 2,203,982</u>	<u>\$ 4,524,179</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 584,377	\$ 1,138,063
Cash and cash equivalents in internally designated assets	<u>1,619,605</u>	<u>3,386,116</u>
	<u>\$ 2,203,982</u>	<u>\$ 4,524,179</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(626,698)	\$(823,182)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	1,644,664	1,628,379
Amortization	18,495	20,242
Changes in assets and liabilities		
Accounts receivable	(567,889)	(175,505)
Inventory	(10,168)	(86,178)
Prepaid expense	(291,657)	16,916
Estimated third-party payor settlements	(589,000)	(422,000)
Accounts payable, trade	932,445	6,890
Accrued salaries and wages	21,489	56,195
Accrued other employee compensation	27,422	83,490
Payroll taxes withheld and accrued	9,625	43,249
Accrued fees	4,100	3,000
Other current liabilities	(8,389)	(5,202)
Total adjustments	<u>1,191,137</u>	<u>1,169,476</u>
Net cash provided by operating activities	<u>\$ 564,439</u>	<u>\$ 346,294</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Montgomery County Memorial Hospital (the Hospital) is a critical access county hospital that provides acute care with related ancillary, outpatient, and home health services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has one component unit. The Montgomery County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation. The Hospital has elected to exclude the financial information of its component unit from these financial statements which, when discreetly presented, would not materially affect the Hospital's Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, or Statement of Cash Flows.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$55,502 in 2010 (\$81,579 in 2009).

9. Compensated Absences

Hospital employees earn paid time off at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 528 hours. Paid time off hours cannot be earned or saved beyond twice the annual amount earned. The computed amount of paid time off benefits earned by year end is recorded as part of accrued other employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note G. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost report has been audited and finalized by the fiscal intermediaries through June 30, 2009. The Hospital's Medicaid cost report has been audited and finalized by the fiscal intermediaries through June 30, 2008. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Long-term debt	\$ <u>823,559</u>	\$ <u>857,302</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2010 or 2009.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2010</u>	<u>2009</u>
Purchase of property and equipment	\$ 64,395	\$ 25,000
Payment of long-term debt	<u>33,743</u>	<u>--</u>
	<u>\$ 98,138</u>	<u>\$ 25,000</u>

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$8,271,019 (\$11,277,434 as of June 30, 2009) of unrestricted net assets as of June 30, 2010, \$3,661,808 (\$6,575,930 for 2009) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	<u>2010</u>	<u>2009</u>
Capital acquisitions and related property taxes	\$ 70,284	\$ 4,123,670
Operations	<u>3,591,524</u>	<u>2,452,260</u>
	<u>\$ 3,661,808</u>	<u>\$ 6,575,930</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2010</u>	<u>2009</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 1,591,547	\$ 3,317,524
Certificates of deposit	2,056,153	3,239,498
Interest receivable	<u>14,108</u>	<u>18,908</u>
	<u>\$ 3,661,808</u>	<u>\$ 6,575,930</u>
Restricted Assets:		
Cash and cash equivalents	\$ 28,058	\$ 68,592
Certificates of deposit	792,754	783,148
Interest receivable	<u>2,747</u>	<u>5,562</u>
	<u>\$ 823,559</u>	<u>\$ 857,302</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2010 and 2009 were as follows:

<u>Cost</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Land Improvements	\$ 1,047,211	\$ --	\$ --	\$ 1,047,211
Buildings	7,071,860	77,238	--	7,149,098
Building Components	2,034,693	--	--	2,034,693
Building Service Equipment	5,149,106	15,860	--	5,164,966
Fixed Equipment	628,839	9,400	--	638,239
Major Movable Equipment	<u>13,058,834</u>	<u>840,735</u>	<u>8,247</u>	<u>13,891,322</u>
	28,990,543	943,233	8,247	29,925,529
 <u>Depreciation</u>				
Land Improvements	948,771	18,744	--	967,515
Buildings	2,961,690	158,151	--	3,119,841
Building Components	1,472,507	128,828	--	1,601,335
Building Service Equipment	4,483,813	112,491	--	4,596,304
Fixed Equipment	579,072	2,382	--	581,454
Major Movable Equipment	<u>9,620,081</u>	<u>1,278,877</u>	<u>8,247</u>	<u>10,890,711</u>
Total Depreciation	<u>20,065,934</u>	<u>1,699,473</u>	<u>8,247</u>	<u>21,757,160</u>
Depreciable Capital Assets, Net	<u>\$ 8,924,609</u>	<u>\$ (756,240)</u>	<u>\$ --</u>	<u>\$ 8,168,369</u>
Construction in Progress	\$ 4,567,372	\$ 7,888,232	\$ 72,224	\$ 12,383,380
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 4,670,712</u>	<u>\$ 7,888,232</u>	<u>\$ 72,224</u>	<u>\$ 12,486,720</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
Land Improvements	\$ 1,011,283	\$ 35,928	\$ --	\$ 1,047,211
Buildings	6,993,305	78,555	--	7,071,860
Building Components	2,034,693	--	--	2,034,693
Building Service Equipment	4,981,759	167,347	--	5,149,106
Fixed Equipment	540,380	88,459	--	628,839
Major Movable Equipment	<u>11,891,412</u>	<u>1,174,879</u>	<u>7,457</u>	<u>13,058,834</u>
	27,452,832	1,545,168	7,457	28,990,543
<u>Depreciation</u>				
Land Improvements	927,552	21,219	--	948,771
Buildings	2,763,462	198,228	--	2,961,690
Building Components	1,390,744	81,763	--	1,472,507
Building Service Equipment	4,313,812	170,001	--	4,483,813
Fixed Equipment	523,100	55,972	--	579,072
Major Movable Equipment	<u>8,430,089</u>	<u>1,197,449</u>	<u>7,457</u>	<u>9,620,081</u>
Total Depreciation	<u>18,348,759</u>	<u>1,724,632</u>	<u>7,457</u>	<u>20,065,934</u>
Depreciable Capital Assets, Net	<u>\$ 9,104,073</u>	<u>\$ (179,464)</u>	<u>\$ --</u>	<u>\$ 8,924,609</u>
Construction in Progress	\$ 863,658	\$ 3,703,714	\$ --	\$ 4,567,372
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 966,998</u>	<u>\$ 3,703,714</u>	<u>\$ --</u>	<u>\$ 4,670,712</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,303,676, of which a portion is rented to local physicians. The depreciation expense on all property and equipment totaled \$1,699,473 for the year ended June 30, 2010 (\$1,724,632 in 2009), of which \$54,809 (\$96,253 in 2009) is related to the space occupied by the physicians and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE G - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2010 and 2009 follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2003 notes	\$2,265,000	\$ --	\$ 545,000	\$1,720,000	\$ 560,000
Series 2009 note	--	3,662,674	--	3,662,674	203,725
Less unamortized refunding costs	<u>(113,767)</u>	<u>--</u>	<u>(47,660)</u>	<u>(66,107)</u>	<u>(36,281)</u>
Total Long-Term Debt	<u>\$2,151,233</u>	<u>\$3,662,674</u>	<u>\$ 497,340</u>	<u>\$5,316,567</u>	<u>\$ 727,444</u>
	<u>Balance 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2009</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 1992 note	\$ 50,163	\$ --	\$ 50,163	\$ --	\$ --
Series 2003 notes	2,800,000	--	535,000	2,265,000	545,000
Less unamortized refunding costs	<u>(171,303)</u>	<u>--</u>	<u>(57,536)</u>	<u>(113,767)</u>	<u>(47,660)</u>
Total Long-Term Debt	<u>\$2,678,860</u>	<u>\$ --</u>	<u>\$ 527,627</u>	<u>\$2,151,233</u>	<u>\$ 497,340</u>

The Series 1992 County Public Hospital Revenue Capital Loan note was issued in December, 1992. The note was payable from the revenues of the Hospital and matured in annual installments starting December 15, 1994 through December 15, 2008. The note had an interest rate of 5.25%. The Hospital had pledged its future revenues (net of certain expenses) to repay the note.

The Series 2003 Hospital Revenue Refunding Capital Loan Notes were issued in December, 2003, with varying interest rates ranging from 1.50% to 4.60%. The notes were issued to refund the Series 1993 bonds. The notes mature in semi-annual installments through June, 2013. The Hospital has pledged its future revenues (net of certain expenses) to repay the notes. The final two payments totaling \$1,160,000 were paid with proceeds from the Series 2009 note on December 1, 2010.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE G - NON-CURRENT LIABILITIES - Continued

The Series 2009 Revenue and Refunding Capital Loan Note was issued in September, 2009 in a principal amount up to \$8,700,000. The note was issued to refund the Series 2003 notes and pay for a renovation and expansion project. Under the note agreement, the Hospital has the option to draw up to the full \$8,700,000 as their construction project develops. Through June 30, 2010, the Hospital had drawn \$3,662,674 on this note to pay for issuance costs of the note and construction costs incurred through June 30, 2010 on the building and renovation project (Note K). As of the date of this report, all of the note proceeds had been drawn by the Hospital. The note carries an interest rate of 4.625% per annum through December 1, 2015. On December 1, 2015 and again on December 1, 2020, the rate will be adjusted to 1.375% over the five year Federal Home Loan Bank of Des Moines fixed advance rate in effect on those dates. Such rate increases, however, will be limited to a 1.75% increase over the preceding effective interest rate. Interest only on outstanding principal is payable monthly through December 1, 2010. Commencing December 1, 2010, the note matures in 60 equal quarterly installments (as adjusted for changes in the interest rate) of principal and interest.

The note is collateralized by future revenues of the Hospital. Under the terms of the note indenture, the Hospital is required to satisfy certain measures of financial performance as long as the note is outstanding. The note indenture also places limits on the incurrence of additional borrowings. The Hospital is also required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements.

The annual debt service on the notes is expected to require less than 26% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$695,866 and \$2,679,000, respectively.

Scheduled principal and interest repayments on the long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2011	\$ 763,725	\$ 268,729	\$ 1,032,454
2012	996,774	431,144	1,427,918
2013	1,026,622	385,955	1,412,577
2014	462,404	345,078	807,482
2015	484,164	323,318	807,482
2016-2019	<u>1,648,985</u>	<u>848,229</u>	<u>2,497,214</u>
	<u>\$ 5,382,674</u>	<u>\$ 2,602,453</u>	<u>\$ 7,985,127</u>

Total interest cost for the year ended June 30, 2010 was \$199,505 (\$166,360 in 2009). Interest of \$55,502 (\$81,579 in 2009) was capitalized as part of the cost of construction in progress. Interest of \$ - 0 - (\$1,087 in 2009) is related to the rental space portion of the office building and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE H - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.10% (4.30% beginning July 1, 2010) of their annual salary and the Hospital is required to contribute 6.35% (6.65% beginning July 1, 2010) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were approximately \$794,000, \$748,000, and \$624,000, respectively, equal to the required contributions for each year.

NOTE I - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2010, was approximately \$1,873,905, (\$1,648,700 at June 30, 2009). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE J - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Myrtue Medical Center of Harlan) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2010</u>	<u>2009</u>
Services purchased from HPSI	\$ <u>86,184</u>	\$ <u>88,667</u>
Services and supplies provided to HPSI	\$ <u>22,844</u>	\$ <u>22,708</u>
Amount due to HPSI	\$ <u>20,545</u>	\$ <u>32,189</u>
Member share of net assets	\$ <u>344,382</u>	\$ <u>300,011</u>

The member share of net assets is included in other assets and the amount due to HPSI is included in accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI are on file at the Hospital and the office of the State Auditor.

Montgomery County Memorial Hospital Foundation

Montgomery County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation. During the year ended June 30, 2010, contributions received from this organization were \$30,250 (\$- 0 - for 2009).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE K - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Montgomery County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Construction in Progress

As of June 30, 2010, the Hospital incurred costs of \$12,383,380 for long-term site development, and renovation and expansion projects of the existing facility. The total estimated cost of the projects is approximately \$15,652,000. The projects are being financed through the use of internally generated funds and the issuance of debt. The site development and expansion projects have been completed as of the date of our report. The renovations are expected to be completed by July, 2011.

Equipment Deposits

As of June 30, 2009, the Hospital incurred costs of \$260,804 for the purchase of equipment and various computer hardware and software applications that had not been completed and placed in service. The equipment was received and capitalized in 2010.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Subsequent Events

The Hospital has evaluated all subsequent events through December 20, 2010, the date the financial statements were available to be issued.

Other Post Employment Benefits (OPEB)

The Hospital implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

NOTE L - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Receivable from:		
Patients	\$ 969,184	\$ 812,758
Medicare	3,004,584	2,922,762
Medicaid	418,827	514,292
Blue Cross	911,823	1,056,993
Other commercial insurance carriers	796,071	580,299
Others	<u>32,287</u>	<u>42,143</u>
	6,132,776	5,929,247
Less allowances for doubtful accounts and contractual adjustments	<u>1,527,000</u>	<u>1,907,000</u>
	<u>\$ 4,605,776</u>	<u>\$ 4,022,247</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,291,992	\$ --	\$ 1,291,992
Other revenues	25,120,139	64,395	25,184,534
Transfers in (out)	<u>98,138</u>	<u>(98,138)</u>	<u>--</u>
	26,510,269	(33,743)	26,476,526
Expenses	<u>25,640,739</u>	<u>--</u>	<u>25,640,739</u>
Net	869,530	(33,743)	835,787
Balance beginning of year	<u>22,539,894</u>	<u>857,302</u>	<u>23,397,196</u>
Balance end of year	<u>\$ 23,409,424</u>	<u>\$ 823,559</u>	<u>\$ 24,232,983</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,291,992	\$ --	\$ 1,291,992	\$ 1,282,386
Other revenues	<u>25,184,534</u>	<u>198,812</u>	<u>25,383,346</u>	<u>39,287,117</u>
	26,476,526	198,812	26,675,338	40,569,503
Expenses	<u>25,640,739</u>	<u>7,729,512</u>	<u>33,370,251</u>	<u>44,905,394</u>
Net	835,787	(7,530,700)	(6,694,913)	(4,335,891)
Balance beginning of year	<u>23,397,196</u>	<u>(8,055,675)</u>	<u>15,341,521</u>	<u>15,341,521</u>
Balance end of year	<u>\$ 24,232,983</u>	<u>\$(15,586,375)</u>	<u>\$ 8,646,608</u>	<u>\$ 11,005,630</u>

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SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

Days Since Discharge	2010		2009	
	Amount	Percent to Total	Amount	Percent to Total
0 - 30	\$ 1,039,826	16.9%	\$ 1,789,429	30.2%
31 - 90	1,836,645	29.9	1,858,448	31.3
91 - 180	526,667	8.6	447,792	7.6
181 - 360	239,661	3.9	118,894	2.0
361 and over	102,189	1.7	202,996	3.4
	<u>3,744,988</u>	<u>61.0</u>	<u>4,417,559</u>	<u>74.5</u>
In hospital and unbilled	2,387,788	39.0	1,511,688	25.5
	<u>6,132,776</u>	<u>100.0%</u>	<u>5,929,247</u>	<u>100.0%</u>

Less:

Allowance for doubtful accounts	316,000	355,000
Allowance for contractual adjustments	<u>1,211,000</u>	<u>1,552,000</u>
	<u>\$ 4,605,776</u>	<u>\$ 4,022,247</u>

Allowance for Doubtful Accounts:

	Year Ended June 30,	
	2010	2009
Balance, beginning	\$ 355,000	\$ 329,000
Provision for bad debts	924,455	965,494
Recoveries of accounts previously written off	<u>187,825</u>	<u>219,449</u>
	<u>1,467,280</u>	<u>1,513,943</u>
Accounts written off	<u>1,151,280</u>	<u>1,158,943</u>
Balance, ending	<u>\$ 316,000</u>	<u>\$ 355,000</u>

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2010</u>	<u>2009</u>
<u>Inventory</u>		
General stores	\$ 208,740	\$ 216,004
Pharmacy	174,977	159,790
Dietary	<u>14,238</u>	<u>11,993</u>
	<u>\$ 397,955</u>	<u>\$ 387,787</u>
 <u>Prepaid Expense</u>		
Dues	\$ 13,614	\$ 13,088
General insurance	231,361	74,023
Service contracts	<u>174,630</u>	<u>40,837</u>
	<u>\$ 419,605</u>	<u>\$ 127,948</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	2010	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,346,190	\$ 171,068
Coronary care	1,842,285	191,106
Nursery	<u>109,338</u>	<u>--</u>
	3,297,813	362,174
Other Nursing Services:		
Operating room	298,651	1,495,562
Recovery room	15,930	178,447
Labor and delivery rooms	88,169	39,194
Medical supplies	708,368	1,039,426
Intravenous therapy	797,819	359,297
Emergency service	841	1,886,066
Wound/ostomy care	972	13,426
Outpatient clinics	<u>3,196</u>	<u>221,130</u>
	1,913,946	5,232,548
Other Professional Services:		
Emergency room physicians	--	1,025,875
Laboratory	769,102	2,325,606
Electrocardiology	146,861	385,097
Electroencephalography	2,824	8,152
Radiology	118,393	1,229,329
Ultrasound	61,394	626,390
CT scan	215,413	2,266,330
Mammography	203	390,164
MRI	49,684	864,122
Nuclear medicine	19,763	141,808
Pharmacy	1,456,336	1,133,597
Anesthesiology	184,194	587,238
Inhalation therapy	908,653	255,323
Physical therapy	105,204	947,869
Speech therapy	11,651	86,690
Occupational therapy	15,269	201,484
Cardiopulmonary rehabilitation	--	87,360
Oncology	35,273	1,180,309
Sleep study	--	244,924
Home health	--	418,707
Hospice	11,048	364,407
Durable medical equipment	--	--
Business health	--	88,406
Women's health	44,078	454,155
Villisca Medical Clinic	--	224,548
Surgical services	66,050	690,584
Internal Medicine	<u>117,274</u>	<u>1,706,285</u>
	<u>4,338,667</u>	<u>17,934,759</u>
	<u>\$ 9,550,426</u>	<u>\$ 23,529,481</u>

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2010		2009
Swing Bed	Total	Total
\$ 1,581,824	\$ 3,099,082	\$ 3,167,695
--	2,033,391	2,089,417
--	109,338	129,471
<u>1,581,824</u>	<u>5,241,811</u>	<u>5,386,583</u>
20,826	1,815,039	1,724,429
1,024	195,401	185,805
--	127,363	163,300
319,114	2,066,908	1,897,497
408,338	1,565,454	1,646,305
66	1,886,973	2,054,243
4,774	19,172	14,259
<u>2,379</u>	<u>226,705</u>	<u>226,343</u>
<u>756,521</u>	<u>7,903,015</u>	<u>7,912,181</u>
--	1,025,875	955,345
248,011	3,342,719	3,231,643
10,292	542,250	340,449
248	11,224	13,144
31,531	1,379,253	1,509,101
8,332	696,116	744,358
34,195	2,515,938	2,505,018
--	390,367	473,742
16,790	930,596	1,060,584
4,269	165,840	179,437
1,030,640	3,620,573	3,319,003
7,355	778,787	780,954
634,244	1,798,220	1,793,074
248,860	1,301,933	1,240,411
12,623	110,964	42,322
34,743	251,496	198,786
--	87,360	98,961
19,592	1,235,174	938,190
--	244,924	250,132
--	418,707	499,759
--	375,455	310,179
--	--	258,460
--	88,406	98,688
--	498,233	430,745
--	224,548	179,768
6,925	763,559	523,222
<u>40,223</u>	<u>1,863,782</u>	<u>1,433,504</u>
<u>2,388,873</u>	<u>24,662,299</u>	<u>23,408,979</u>
<u>\$ 4,727,218</u>	<u>\$ 37,807,125</u>	<u>\$ 36,707,743</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 37,807,125	\$ 36,707,743
Contractual adjustments	(12,015,495)	(11,958,081)
Discounts and allowances	(139,235)	(135,276)
Charity care	(79,190)	(38,648)
Provision for bad debts	(924,455)	(965,494)
	<u>\$ 24,648,750</u>	<u>\$ 23,610,244</u>
Other Operating Revenue:		
Meals sold	\$ 98,228	\$ 90,184
Prisoner meals	26,660	19,080
Meals on wheels	42,326	43,801
Lifeline	66,457	66,461
Medical record transcripts	6,026	4,820
Case management	36,393	40,299
Wellness	33,279	26,984
Contracted services	29,280	64,845
Certified training classes	11,454	11,171
Miscellaneous	<u>38,804</u>	<u>47,982</u>
	<u>\$ 388,907</u>	<u>\$ 415,627</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Administrative:		
Salaries and wages	\$ 158,623	\$ 156,522
Employee benefits	31,982	27,703
Supplies and other expense	<u>23,021</u>	<u>28,354</u>
	213,626	212,579
Quality Assurance:		
Salaries and wages	64,131	61,688
Employee benefits	12,722	12,207
Supplies and other expense	<u>5,540</u>	<u>10,292</u>
	82,393	84,187
Inservice:		
Salaries and wages	60,918	60,839
Employee benefits	15,860	14,784
Supplies and other expense	<u>28,723</u>	<u>31,215</u>
	105,501	106,838
Medical and Surgical:		
Salaries and wages	1,629,282	1,577,465
Employee benefits	492,460	421,047
Supplies and other expense	<u>130,895</u>	<u>130,759</u>
	2,252,637	2,129,271
Coronary Care:		
Salaries and wages	889,483	950,822
Employee benefits	256,533	225,529
Supplies and other expense	<u>28,683</u>	<u>22,739</u>
	1,174,699	1,199,090
Obstetric:		
Salaries and wages	44,142	53,981
Employee benefits	6,180	7,537
Supplies and other expense	<u>430</u>	<u>3,322</u>
	50,752	64,840

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Nursery:		
Salaries and wages	\$ 42,564	\$ 50,957
Employee benefits	5,959	7,114
Supplies and other expense	<u>4,365</u>	<u>6,018</u>
	52,888	64,089
Operating Room:		
Salaries and wages	452,251	482,861
Employee benefits	134,157	107,109
Supplies and other expense	<u>110,518</u>	<u>146,147</u>
	696,926	736,117
Labor and Delivery:		
Salaries and wages	21,268	26,562
Employee benefits	2,978	3,708
Supplies and other expense	<u>14,496</u>	<u>19,368</u>
	38,742	49,638
Central Services and Supply:		
Salaries and wages	176,056	176,589
Employee benefits	69,558	66,237
Supplies sold to patients	547,148	479,977
Supplies and other expense	<u>11,183</u>	<u>6,053</u>
	803,945	728,856
Intravenous Therapy:		
Solutions	36,468	34,054
Emergency Services:		
Salaries and wages	466,160	471,083
Employee benefits	99,281	90,563
Supplies and other expense	<u>19,031</u>	<u>17,608</u>
	584,472	579,254
Outpatient Clinics:		
Salaries and wages	265,403	277,558
Employee benefits	84,578	81,159
Supplies and other expense	<u>32,915</u>	<u>28,325</u>
	<u>382,896</u>	<u>387,042</u>
	<u>\$ 6,475,945</u>	<u>\$ 6,375,855</u>

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 4,270,281	\$ 4,346,927
Employee benefits	1,212,248	1,064,697
Other expense	<u>993,416</u>	<u>964,231</u>
	<u>\$ 6,475,945</u>	<u>\$ 6,375,855</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Emergency Room Physicians:		
Professional fees	\$ 984,923	\$ 871,984
Supplies and other expense	<u> --</u>	<u> 72</u>
	984,923	872,056
Laboratory:		
Salaries and wages	479,895	467,984
Employee benefits	126,458	127,262
Purchased services	129,384	119,141
Supplies and other expense	<u>457,822</u>	<u>476,335</u>
	1,193,559	1,190,722
Blood Bank:		
Cost of blood	119,463	98,607
Electrocardiology:		
Salaries and wages	15,826	15,499
Employee benefits	2,200	2,155
Purchased services	98,896	49,624
Supplies and other expense	<u>1,078</u>	<u> 694</u>
	118,000	67,972
Electroencephalography:		
Salaries and wages	1,152	1,248
Employee benefits	161	174
Supplies and other expense	<u> 16</u>	<u> 90</u>
	1,329	1,512
Radiology:		
Salaries and wages	422,626	440,014
Employee benefits	112,271	103,787
Supplies and other expense	<u>228,763</u>	<u>229,834</u>
	763,660	773,635
Ultrasound:		
Salaries and wages	94,568	93,920
Employee benefits	20,492	18,654
Supplies and other expense	<u>29,988</u>	<u>54,929</u>
	145,048	167,503

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
CT Scan:		
Salaries and wages	\$ 45,457	\$ 46,459
Employee benefits	16,088	15,222
Professional fees	83,534	64,477
Supplies and other expense	<u>5,341</u>	<u>5,275</u>
	150,420	131,433
Mammography:		
Purchased services	80,853	120,365
Supplies and other expense	<u>21,790</u>	<u>10,611</u>
	102,643	130,976
MRI:		
Purchased services	146,800	175,746
Supplies and other expense	<u>10,497</u>	<u>11,384</u>
	157,297	187,130
Nuclear Medicine:		
Purchased services	64,902	71,742
Pharmacy:		
Salaries and wages	311,907	306,630
Employee benefits	60,151	57,022
Purchased services	108,457	104,301
Drugs	625,714	526,149
Supplies and other expense	<u>9,354</u>	<u>8,450</u>
	1,115,583	1,002,552
Anesthesiology:		
Salaries and wages	368,211	416,146
Employee benefits	58,386	68,942
Professional fees	35,495	10,791
Supplies and other expense	<u>32,595</u>	<u>22,179</u>
	494,687	518,058
Inhalation Therapy:		
Salaries and wages	301,750	307,738
Employee benefits	75,014	72,698
Purchased services	593	--
Supplies and other expense	<u>51,728</u>	<u>154,309</u>
	429,085	534,745

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Physical Therapy:		
Professional fees	\$ 494,390	\$ 471,542
Supplies and other expense	<u>7,456</u>	<u>5,765</u>
	501,846	477,307
Speech Therapy:		
Professional fees	50,780	23,355
Supplies and other expense	<u>169</u>	<u>--</u>
	50,949	23,355
Occupational Therapy:		
Professional fees	96,238	75,748
Supplies and other expense	<u>61</u>	<u>176</u>
	96,299	75,924
Cardiopulmonary Rehabilitation:		
Salaries and wages	109,263	109,828
Employee benefits	25,037	32,505
Supplies and other expense	<u>4,330</u>	<u>4,763</u>
	138,630	147,096
Oncology:		
Salaries and wages	148,767	138,575
Employee benefits	20,964	18,121
Supplies and other expense	<u>358,533</u>	<u>253,635</u>
	528,264	410,331
Sleep Study:		
Salaries and wages	101,999	106,063
Employee benefits	15,552	15,905
Professional fees	13	--
Supplies and other expense	<u>7,409</u>	<u>12,196</u>
	124,973	134,164
Home Health:		
Salaries and wages	254,609	312,190
Employee benefits	76,458	85,119
Professional fees	107,447	71,836
Purchased services	21,512	18,194
Supplies and other expense	<u>25,224</u>	<u>32,304</u>
	485,250	519,643

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Hospice:		
Salaries and wages	\$ 101,944	\$ 100,709
Employee benefits	14,146	13,563
Purchased services	62,739	56,939
Supplies and other expense	<u>42,555</u>	<u>31,343</u>
	221,384	202,554
Business Health:		
Salaries and wages	64,252	65,695
Employee benefits	12,175	15,834
Supplies and other expense	<u>31,994</u>	<u>40,719</u>
	108,421	122,248
Women's Health:		
Salaries and wages	331,296	331,734
Employee benefits	91,583	93,803
Supplies and other expense	<u>53,458</u>	<u>54,644</u>
	476,337	480,181
Villisca Medical Clinic:		
Salaries and wages	174,450	171,228
Employee benefits	48,092	44,971
Supplies and other expense	<u>61,469</u>	<u>59,881</u>
	284,011	276,080
Surgical Services:		
Salaries and wages	360,028	343,595
Employee benefits	42,855	53,011
Supplies and other expense	<u>45,140</u>	<u>37,018</u>
	448,023	433,624
Internal Medicine:		
Salaries and wages	875,405	679,774
Employee benefits	206,559	145,658
Purchased services	3,516	14,146
Supplies and other expense	<u>87,126</u>	<u>76,714</u>
	1,172,606	916,292
Social Services:		
Salaries and wages	97,432	96,598
Employee benefits	22,174	21,084
Supplies and other expense	<u>997</u>	<u>1,360</u>
	120,603	119,042

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Lifeline:		
Supplies and other expense	\$ 53,585	\$ 56,976
Health Information Management:		
Salaries and wages	311,059	296,760
Employee benefits	80,924	75,085
Supplies and other expense	<u>144,525</u>	<u>96,075</u>
	536,508	467,920
Case Management:		
Salaries and wages	3,812	1,067
Employee benefits	22	151
Supplies and other expense	<u>467</u>	<u>197</u>
	4,301	1,415
Diabetes Program:		
Salaries and wages	88,525	94,931
Employee benefits	25,502	26,026
Supplies and other expense	<u>1,628</u>	<u>3,197</u>
	115,655	124,154
Wound/Ostomy Care:		
Purchased services	27,804	26,208
Supplies and other expense	<u>5,869</u>	<u>4,255</u>
	<u>33,673</u>	<u>30,463</u>
	<u>\$ 11,341,917</u>	<u>\$ 10,767,412</u>

SUMMARY

Salaries and wages	\$ 5,064,233	\$ 4,944,385
Employee benefits	1,153,264	1,106,752
Professional fees	1,852,820	1,589,733
Other expense	<u>3,271,600</u>	<u>3,126,542</u>
	<u>\$ 11,341,917</u>	<u>\$ 10,767,412</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Dietary:		
Salaries and wages	\$ 437,580	\$ 443,205
Employee benefits	153,367	141,134
Food	205,640	206,401
Supplies and other expense	<u>45,793</u>	<u>53,091</u>
	842,380	843,831
Housekeeping:		
Salaries and wages	360,306	355,938
Employee benefits	132,519	128,749
Purchased services	22,113	21,322
Supplies and other expense	<u>93,647</u>	<u>93,325</u>
	608,585	599,334
Laundry and Linen:		
Purchased services	98,871	96,611
Supplies and other expense	<u>2,698</u>	<u>2,757</u>
	101,569	99,368
Plant Engineering:		
Salaries and wages	248,139	218,443
Employee benefits	48,785	39,366
Utilities	317,164	316,707
Purchased services	53,342	42,432
Supplies and other expense	<u>180,678</u>	<u>163,447</u>
	848,108	780,395
	<u>\$ 2,400,642</u>	<u>\$ 2,322,928</u>

SUMMARY

Salaries and wages	\$ 1,046,025	\$ 1,017,586
Employee benefits	334,671	309,249
Other expense	<u>1,019,946</u>	<u>996,093</u>
	<u>\$ 2,400,642</u>	<u>\$ 2,322,928</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Administrative:		
Salaries and wages	\$ 252,170	\$ 244,803
Employee benefits	303,375	235,369
Professional fees	76,943	86,567
Dues and subscriptions	50,238	48,582
Purchased services	38,303	35,139
Collection fees	55,271	60,942
Telephone	37,859	36,103
Supplies and other expense	<u>125,180</u>	<u>165,159</u>
	939,339	912,664
Accounting:		
Salaries and wages	188,723	185,266
Employee benefits	48,971	43,332
Supplies and other expense	<u>12,251</u>	<u>29,673</u>
	249,945	258,271
Admissions/Business Office:		
Salaries and wages	195,843	193,904
Employee benefits	61,309	60,055
Supplies and other expense	<u>9,610</u>	<u>7,993</u>
	266,762	261,952
Patient Accounting:		
Salaries and wages	248,447	239,751
Employee benefits	77,624	61,359
Supplies and other expense	<u>73,269</u>	<u>94,316</u>
	399,340	395,426
Fiscal Services:		
Salaries and wages	128,621	142,562
Employee benefits	49,275	47,460
Purchased services	30,827	8,214
Supplies and other expense	<u>6,440</u>	<u>6,462</u>
	215,163	204,698
Information Systems:		
Salaries and wages	577,795	568,355
Employee benefits	142,989	129,438
Purchased services and maintenance	305,097	315,406
Supplies and other expense	<u>104,316</u>	<u>78,480</u>
	1,130,197	1,091,679

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Human Resources:		
Salaries and wages	\$ 78,837	\$ 79,323
Employee benefits	44,236	44,420
Purchased services	782	2,000
Supplies and other expense	<u>22,528</u>	<u>33,821</u>
	146,383	159,564
Public Relations:		
Salaries and wages	74,329	77,211
Employee benefits	14,312	13,795
Supplies and other expense	<u>83,124</u>	<u>71,859</u>
	171,765	162,865
DRG/Utilization Review:		
Salaries and wages	98,566	95,915
Employee benefits	22,005	20,920
Purchased services	--	23,076
Supplies and other expense	<u>976</u>	<u>1,689</u>
	121,547	141,600
Insurance:		
Liability and property insurance	<u>142,251</u>	<u>145,518</u>
	<u>\$ 3,782,692</u>	<u>\$ 3,734,237</u>

SUMMARY

Salaries and wages	\$ 1,843,331	\$ 1,827,090
Employee benefits	764,096	656,148
Professional fees	76,943	86,567
Other expense	<u>1,098,322</u>	<u>1,164,432</u>
	<u>\$ 3,782,692</u>	<u>\$ 3,734,237</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 12,223,870	\$ 12,135,988
Employee benefits	3,464,279	3,136,846
Professional fees	1,929,763	1,676,300
Other expense	<u>6,383,284</u>	<u>6,251,298</u>
	<u>\$ 24,001,196</u>	<u>\$ 23,200,432</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Admissions	906	1,099	1,103	1,130	1,136
Discharges	915	1,096	1,102	1,133	1,137
Average Length of Stay	3.70	3.63	3.44	3.55	3.42
Acute Patient Days	3,387	3,982	3,795	4,022	3,883
Average Occupied Beds	9.3	10.9	10.4	11.0	10.6
Swing Bed Days	2,750	2,290	2,376	2,372	2,673
Combined Average Occupied Beds	16.8	17.2	16.9	17.5	18.0
Beds Available	25	25	25	25	25
Nursery Days	158	190	212	227	240
Outpatient Occasions of Service	40,328	42,096	39,720	40,346	39,706

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 584,377	\$ 1,138,063
Receivables, net	4,670,816	4,102,927
Inventory	397,955	387,787
Prepaid expense	419,605	127,948
Estimated third-party payor settlements	554,000	--
Succeeding year property tax receivable	1,364,000	1,282,000
Internally designated assets	<u>847,260</u>	<u>1,003,162</u>
Total current assets	8,838,013	8,041,887
Other Assets:		
Internally designated and restricted assets	3,638,107	6,430,070
Capital assets, net	20,655,089	13,595,321
Other non-current assets	<u>616,663</u>	<u>737,604</u>
Total other assets	<u>24,909,859</u>	<u>20,762,995</u>
	<u>\$ 33,747,872</u>	<u>\$ 28,804,882</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 727,444	\$ 497,340
Accounts payable	1,508,912	673,622
Estimated third-party payor settlements	--	35,000
Accrued expenses	1,325,410	1,265,831
Deferred revenue for succeeding year property tax receivable	<u>1,364,000</u>	<u>1,282,000</u>
Total current liabilities	4,925,766	3,753,793
Long-Term Debt, Net	4,589,123	1,653,893
Net Assets	<u>24,232,983</u>	<u>23,397,196</u>
	<u>\$ 33,747,872</u>	<u>\$ 28,804,882</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,986,147	\$ 1,842,873	\$ 1,118,862
3,927,422	3,835,133	3,548,743
301,609	320,792	330,444
144,864	145,506	75,067
--	--	202,000
1,225,000	1,172,000	1,159,000
<u>805,071</u>	<u>1,104,097</u>	<u>920,467</u>
8,390,113	8,420,401	7,354,583
9,342,307	8,688,610	8,495,149
10,071,071	10,398,351	9,417,528
<u>664,035</u>	<u>662,783</u>	<u>928,272</u>
20,077,413	19,749,744	18,840,949
<u>\$ 28,467,526</u>	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>
\$ 527,627	\$ 484,745	\$ 492,900
428,478	725,381	462,495
457,000	460,000	--
1,086,775	1,246,692	1,151,949
<u>1,225,000</u>	<u>1,172,000</u>	<u>1,159,000</u>
3,724,880	4,088,818	3,266,344
2,151,233	2,599,071	3,083,816
<u>22,591,413</u>	<u>21,482,256</u>	<u>19,845,372</u>
<u>\$ 28,467,526</u>	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Patient Service Revenue	\$ 37,807,125	\$ 36,707,743
Adjustments to Patient Service Revenue	<u>(13,158,375)</u>	<u>(13,097,499)</u>
Net Patient Service Revenue	24,648,750	23,610,244
Other Revenue	<u>388,907</u>	<u>415,627</u>
Total Revenue	25,037,657	24,025,871
Expenses	<u>25,664,355</u>	<u>24,849,053</u>
Operating Income (Loss)	(626,698)	(823,182)
Non-Operating Revenue, Net	<u>1,398,090</u>	<u>1,603,965</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	771,392	780,783
Capital Grants and Contributions	<u>64,395</u>	<u>25,000</u>
Increase in Net Assets	<u><u>\$ 835,787</u></u>	<u><u>\$ 805,783</u></u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 30,618,227	\$ 29,180,059	\$ 28,684,434
<u>(9,807,635)</u>	<u>(8,805,767)</u>	<u>(8,209,288)</u>
20,810,592	20,374,292	20,475,146
<u>385,803</u>	<u>377,313</u>	<u>410,356</u>
21,196,395	20,751,605	20,885,502
<u>21,875,984</u>	<u>20,865,182</u>	<u>20,092,744</u>
(679,589)	(113,577)	792,758
<u>1,761,089</u>	<u>1,724,396</u>	<u>1,467,055</u>
1,081,500	1,610,819	2,259,813
<u>27,657</u>	<u>26,065</u>	<u>42,000</u>
<u>\$ 1,109,157</u>	<u>\$ 1,636,884</u>	<u>\$ 2,301,813</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Montgomery County Memorial Hospital
Red Oak, Iowa

We have audited the financial statements of Montgomery County Memorial Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated December 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Montgomery County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Montgomery County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Montgomery County Memorial Hospital's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Hospital's response, we did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Montgomery County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

G. M. M. M., B. M., K. M. M. & G. P. C.

Atlantic, Iowa
December 20, 2010

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2010

PART I - REPORTABLE CONDITIONS

10-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This is a common deficiency among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

10-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2010 did not exceed amounts budgeted.

10-II-B Questionable Expenditures: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Board members.

10-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

10-II-D Business Transactions: During our audit, we noted no business transactions between the Hospital and Hospital officials.

10-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

10-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *